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SUBJECT: SANCTIONS ON EU PRODUCTS DUE TO HORMONE-BEEF BAN

¶1. (SBU) Summary and Action Request: Embassy Paris recommends modification of proposed list of French exports targeted under revised sanctions. Country Team believes that, to be effective, sanctions need to target major corporate interests with political clout. Sanctions that target artisanal products tend to rally popular and political support for the small farmers impacted against the USG. Products currently proposed for targeting, including Roquefort cheese, truffles and foie gras, are luxury items with relatively inelastic demand. As such, much of the retaliation's cost actually falls on U.S. consumers who purchase these items regardless of price. Embassy proposes an alternative list of products that will have greater economic impact on significant French exporters.

¶2. (SBU) Embassy Paris supports aggressive retaliation against WTO-illegal trade barriers maintained by the European Union. France is one of the main culprits in fostering protectionism in agriculture, especially by means of non-science based import restrictions. Embassy has documented GOF efforts to promote an EU-wide system of agricultural standards based on "societal preferences" as determined by appointed experts or elected officials. This initiative is intended to modify both scientific evaluation and consumer preference as determined in the marketplace.

¶3. (SBU) In order to be effective, Embassy has argued that USG retaliation needs to target those French interests which can exert influence on GOF decisionmakers. France is Europe's largest agricultural producer and exporter and both the legislature and the executive are focused on agricultural interests. However, the food culture of France is also highly attuned to the uniqueness and cultural importance of specific products, usually produced in an artisanal fashion in a distinct geographic region. France as a nation will die in a ditch before compromising on such products. The current proposed retaliation list targets one export category - feed grains - of real economic interest with no cultural constituency. Mineral and aerated water, which appears in Annex II of the Federal Register Notice, would also be an effective target because it would marshal the corporate giants (see para 8E below) to pressure the French government to change its position. However the list also targets three products high in public sympathy: Roquefort cheese, foie gras, and truffles.

¶4. (SBU) Roquefort cheese has been subject to a 100 percent duty since the beginning of the current case. The cheese is produced from sheep milk by a handful of cooperatives and independent farmers in one of France's relatively poorer and more isolated regions. The sheep industry in general is under considerable pressure since sheep are raised in marginal grazing regions, and shepherds tend to be the least well off members of France's agricultural sector. In fact, this sector was recently recognized as one of the few "economically

endangered" sectors warranting special treatment during the wide-ranging review of EU ag policy conducted under the French EU presidency. Agricultural Minister Michel Barnier, who pushed for this recognition, is from a mountainous region and is extremely sympathetic to the shepherds' plight. Further, French farm activist Jose Bove comes from the Roquefort producing region. While he is the most militant activist against USG agriculture interests, he also has very considerable public sympathy in France. The initial imposition of the Roquefort duty led to Bove's destruction of a McDonalds, helping him burnish his image as a protector of artisanal French agriculture against what is perceived as the American industrial agricultural model.

¶5. (SBU) Despite the difficulties of the ovine sector, Roquefort cheese is generally acknowledged to be the king of the world's blue cheeses. Despite the 100 percent duty, American imports of Roquefort grew by 37 percent in 2007. While increasing this duty to 300 percent would certainly cut down U.S. demand, we suspect that the cheese will continue to be imported and the cost of the sanction will continue to be borne by American consumers rather than French exporters.

¶6. (SBU) Foie gras is a similar product. While most French foie gras is processed and exported by a handful of large firms, the ducks and geese are raised by small farmers from a number of France's most scenic regions. This is not a large scale agro-industrial product. We also note that the largest foie gras exporter, Euralis, has been one of the most vocal advocates in favor of biotech corn.

¶7. (SBU) This brings us to truffles. Truffles are an exclusively artisanal product gathered by peasants combing the oak groves with

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their truffle hounds. The price of premium black truffles is extraordinary, and the product itself symbolizes luxury. U.S. Customs data indicate only a few kilos worth of imports in 2007, making this a totally symbolic gesture. For those few Americans who consume truffles, more expensive is probably better. As a result, we forecast that taxing truffles will have minimal impact on exports with American consumers absorbing the cost of the sanction.

¶8. (SBU) Embassy has identified a series of significant French agricultural exports which have little public, patriotic or symbolic importance but which represent substantial revenues for major firms as follows:

¶A. Wheat gluten: HS Code 11090090. France is the largest supplier (followed by the Netherlands) with few industrial suppliers, including Roquette and Amylum. 2006 value: USD26.6 million

¶B. Enzymes: HS Code 35079070. France is the fourth largest supplier. Several large companies supply this market. Many enzymes are co-products of wheat starch and wheat gluten industry. 2006 value: USD24.5 million

¶C. Vegetable saps and extracts: HS Code 130219. France is third largest supplier after China and India, due to its strong food processing industry. 2006 value: USD29.1 million

¶D. Food preparations, Food Preparations Not Elsewhere Specified or Included, Not Canned Or Frozen: HS code 2106909998. France is second largest supplier after Canada. 2006 value: USD41.2 million

¶E. Mineral and aerated waters: HS code 220110. France is largest supplier to the US. The two major mineral water companies are Swiss Nestl and French Danone. 2006 value: USD81.4 million.

¶9. (SBU) Embassy requests Washington agencies modify proposed list of sanctions on French products with respect to Roquefort cheese, Prepared or preserved liver, and Truffles. Embassy recommends that future retaliation against France include consideration of products listed in para 8 above. Embassy recognizes that the current retaliation must be based on items listed in the Federal Register notice and recommends that Washington target Mixed feed or mixed feed ingredients used in animal feeding; and, if possible, Mineral

and aerated waters.

PEKALA